

Financial Statement

The semi-2006 financial statements of the Company were not audited.

Weifu High-Technology Co., Ltd.

August 18, 2006

I. The Interim 2006 Financial Statements of the Company were not audited.

II. Financial Report

BALANCE SHEET

Jun.30, 2006

Prepared by Weifu High-Technology Co., Ltd.

Unit: RMB

Assets	Note	Consolidated		Parent Company	
		Jun.30, 2006	Dec.31, 2005	Jun.30, 2006	Dec.31, 2005
Current assets:					
Capital in cash	5.1	821,469,004.76	774,191,718.53	334,895,429.85	329,662,866.71
Short-term investment					
Notes receivable	5.2	315,170,017.15	171,800,705.85	201,322,956.31	94,708,138.40
Dividend receivable		-	-	-	-
Interest receivable		-	-	-	-
Accounts receivable	5.3	818,136,667.70	696,004,253.49	364,552,848.37	279,250,236.90
Other receivable	5.4	48,638,303.48	52,651,458.33	38,729,626.54	88,577,615.88
Prepayment		14,449,976.63	10,214,161.42	7,848,595.83	8,247,266.14
Subsidy receivable		-	-	-	-
Inventory	5.5	633,376,061.68	720,761,793.15	298,189,250.87	298,193,422.14
Charges to be amortized		-	-	-	-
Long-term bonds investment one year due					
Other current assets		-	-	-	-
Total current assets		2,651,240,031.40	2,425,624,090.77	1,245,538,707.77	1,098,639,546.17
Long-term investment:					
Long-term equity investment	5.6	961,518,545.95	963,851,569.10	1,705,411,847.04	1,647,471,345.83
Long-term bonds investment		-	-	-	-
Long-term investment, total		961,518,545.95	963,851,569.10	1,705,411,847.04	1,647,471,345.83
Fixed assets:					
Original value of fixed assets	5.7	1,334,323,865.21	1,264,660,118.06	816,392,492.68	735,334,304.33
Less: Accumulated depreciation	5.7	390,570,479.77	332,814,394.99	251,550,090.71	202,148,956.34
Fixed assets, net		943,753,385.44	931,845,723.07	564,842,401.97	533,185,347.99
Less: provision for fixed assets devaluation	5.7	4,735,164.18	6,390,099.53	2,853,326.39	2,853,326.39
Fixed assets, net		939,018,221.26	925,455,623.54	561,989,075.58	530,332,021.60
Construction material		-	-	-	-
Construction-in-progress	5.8	110,658,124.56	68,877,935.02	90,487,842.02	49,733,193.53
Disposal of fixed assets		-	-	-	-
Total fixed assets		1,049,676,345.82	994,333,558.56	652,476,917.60	580,065,215.13
Intangible and other assets					
Intangible assets	5.9	85,065,092.01	88,805,962.44	3,292,247.89	3,335,121.19
Long-term expenses to be allocated		-	-	-	-
Other long-term assets		-	-	-	-

Total intangible assets and other assets	85,065,092.01	88,805,962.44	3,292,247.89	3,335,121.19
Deferred taxation:				
Deferred taxation, credit				
Total assets	4,747,500,015.18	4,472,615,180.87	3,606,719,720.30	3,329,511,228.32

Liability and shareholders' equity	Note	Consolidated		Parent Company	
		Jun.30, 2006	Dec.31, 2005	Jun.30, 2006	Dec.31, 2005
Current liabilities:					
Short-term borrowings	5.10	1,177,624,594.40	1,088,913,724.80	548,511,900.00	354,210,600.00
Notes payables	5.11	262,130,000.00	178,110,000.00	257,220,000.00	178,110,000.00
Accounts payables	5.12	396,168,370.27	304,471,842.81	221,580,262.53	176,910,989.73
Advance collection		7,937,506.72	3,025,461.14	7,849,465.58	1,031,858.53
Wages payables		-	816,533.00	-	-
Welfare fees payables		8,921,083.68	8,000,824.49	-	-
Dividends payables	5.13	416,000.00	416,000.00	416,000.00	416,000.00
Tax not paid yet	5.14	11,831,316.94	-3,367,735.53	2,808,927.17	1,625,688.06
Other accounts not paid yet		2,553,368.36	2,183,590.07	1,199,916.70	1,287,265.85
Other payables	5.15	95,500,512.44	115,974,704.48	50,684,113.92	53,232,036.91
Advance allocation		42,184,077.98	4,319,697.81	4,777,381.55	-
Liabilities estimated		-	-	-	-
Long-term debts one-year due		20,000,000.00	145,000,000.00	20,000,000.00	145,000,000.00
Other current liabilities		-	-	-	-
Total current liabilities		2,025,266,830.79	1,847,864,643.07	1,115,047,967.45	911,824,439.08
Long-term liabilities:					
Long-term borrowings	5.16	73,000,000.00	73,000,000.00	70,000,000.00	70,000,000.00
Bonds payables		-	-	-	-
Long-term payables	5.17	11,870,000.00	11,730,000.00	-	-
Special payables	5.18	10,802,623.48	13,043,896.54	-	2,461,273.06
Other long-term liabilities		-	-	-	-
Total long-term liabilities		95,672,623.48	97,773,896.54	70,000,000.00	72,461,273.06
Deferred taxation, debit		-	-	-	-
Total liabilities		2,120,939,454.27	1,945,638,539.61	1,185,047,967.45	984,285,712.14
Minority Shareholders' equity		204,888,808.06	184,994,440.08	-	-
Shareholders' equity:					
Share capital	5.19	567,275,995.00	567,275,995.00	567,275,995.00	567,275,995.00
Capital reserve	5.20	925,249,818.64	925,249,818.64	925,249,818.64	925,249,818.64
Surplus reserve	5.21	267,449,061.69	267,449,061.69	241,029,441.30	241,029,441.30
Including: Public welfare		88,022,254.67	88,022,254.67	79,798,889.99	79,798,889.99
Retained profit	5.22	661,696,877.52	582,007,325.85	688,116,497.91	611,670,261.24
Distribution dividend planed					

Total shareholders' equity	2,421,671,752.85	2,341,982,201.18	2,421,671,752.85	2,345,225,516.18
Total liability and shareholders' equity	4,747,500,015.18	4,472,615,180.87	3,606,719,720.30	3,329,511,228.32

STATEMENTS OF PROFIT AND PROFIT DISTRIBUTION

Prepared by Weifu High-Technology Co., Ltd.

Unit: RMB

Items	Note	Consolidated		Unconsolidated	
		Jan.-Jun., 2006	Jan.-Jun., 2005	Jan.-Jun., 2006	Jan.-Jun., 2005
I. Income from Main Operation	5.23	1,289,211,161.93	1,755,806,383.72	681,018,506.16	804,847,566.00
Less: Cost of main operation	5.23	958,446,137.36	1,385,618,086.14	553,511,403.41	647,311,013.89
Taxes and surtax of main operation	5.24	7,832,135.91	4,517,696.84	3,214,852.49	2,653,648.57
II. Profit from Main Operation		322,932,888.66	365,670,600.74	124,292,250.26	154,882,903.54
Add: Income from other operation	5.25	4,522,573.45	8,902,842.01	1,759,488.68	8,633,035.22
Less: Operating expenses		56,259,420.47	60,426,077.07	30,090,612.01	35,815,988.55
Administration expenses		120,068,617.84	109,837,693.92	50,185,348.68	42,064,858.58
Financial expenses	5.26	36,429,300.95	31,706,725.20	19,059,255.97	11,520,021.62
III. Operating Profit		114,698,122.85	172,602,946.56	26,716,522.28	74,115,070.01
Add: Investment income	5.27	-3,401,717.36	24,120,612.04	56,871,807.00	92,327,219.75
Subsidy income		700,000.00	-	-	-
Non-operating income		449,983.29	349,855.92	95,309.48	254,840.16
Less: Non-operating expenses	5.28	5,276,112.10	5,550,126.15	3,763,841.62	2,973,872.51
IV. Total Profit		107,170,276.68	191,523,288.37	79,919,797.14	163,723,257.41
Less: Income tax		7,586,357.03	14,380,690.00	3,473,560.47	11,275,936.73
Minority interests		19,894,367.98	24,695,277.69	-	-
V. Profit, net		79,689,551.67	152,447,320.68	76,446,236.67	152,447,320.68
Add: Retained profit at the year-begin		582,007,325.85	619,996,364.01	611,670,261.24	629,363,458.44
Other transferring into		-	-	-	-
VI. Distributable Profit		661,696,877.52	772,443,684.69	688,116,497.91	781,810,779.12
Less: Allocation of statutory surplus reserve		-	-	-	-
Allocation of statutory public welfare fund		-	-	-	-
Allocation of employee welfare and bounty		-	-	-	-
Allocation of reserve fund		-	-	-	-
Allocation of development fund of enterprise		-	-	-	-
Returning into investment from profit		-	-	-	-
VII. Distributable Profit to shareholders		661,696,877.52	772,443,684.69	688,116,497.91	781,810,779.12
Less: Dividends distributed to preference shares		-	-	-	-
Allocation of any discretionary surplus reserve		-	-	-	-
Dividends distributed to common shares		-	-	-	-
Capitalized dividends		-	-	-	-
VIII. Retained profit		661,696,877.52	772,443,684.69	688,116,497.91	781,810,779.12

Supplemental information

1. Income from selling or disposal branch and investee enterprise
 2. Losses due from natural disaster
 3. Increase of total profit due to the change of accounting policies
 4. Increase of total profit due to the change of accounting estimation
 5. Loss on debts reorganization
 6. Others
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SUPPLEMENTARY STATEMENT OF PROFIT

Jan.-Jun., 2006

Prepared by Weifu High-Technology Co., Ltd.

Profit in the report period	Return on equity (%)		Earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operation	13.34%	13.56%	0.57	0.57
Operating profit	4.74%	4.82%	0.20	0.20
Net profit	3.29%	3.35%	0.14	0.14
Net profit after deducting non-recurring gains and losses	3.27%	3.33%	0.14	0.14

DETAILS OF NON-RECURRING GAINS AND LOSSES**Unit: RMB**

Items	Amount
Non-recurring losses:	
Non-operating expenses:	5,276,112.10
Less: foods allocation funds, flood control & security funds	3,648,737.40
Less: revision for depreciation of fixed assets	-
Sub-total	1,627,374.70
Non-recurring gains:	
Non-operating income:	449,983.29
Income from disposal of fixed assets	353,769.81
Other income	96,213.48
Charge off government appropriation for tech-reform	-
Switch back of allowance for bad debts	234,087.37
Switch back of provision for falling price of stockage	148,786.58
Switch back of provision for depreciation of fixed assets	1,654,935.35
Sub-total	2,487,792.59
Net amount of non-recurring gains and losses (gains - losses)	860,417.89
Less: Impact on income tax due to non-recurring gains and losses	71,631.59
Less: Impact on minority interests due to non-recurring gains and losses	385,768.19

CASH FLOW STATEMENT

Prepared by Weifu High-Technology Co., Ltd.

Jan.-Jun., 2006

Unit: RMB

Items	Note	Consolidated	Parent company
I. Cash flows from operating activities			
Cash gained on sales and service		1,354,244,696.65	674,059,058.92
Taxation return		-	-
Cash received from other operating activities	5.29	11,179,134.24	65,175,327.71
Sub-total cash gained on operations		1,365,423,830.89	739,234,386.63
Cash used for sales and service		881,582,321.16	536,436,961.80
Cash paid to/for employees		112,967,068.48	69,878,646.00
Tax paid		90,115,740.97	38,443,956.71
Cash used for other operating activities	5.30	54,936,839.67	37,517,607.25
Sub-total out flow of cash		1,139,601,970.28	682,277,171.76
Net cash generated from operations		225,821,860.61	56,957,214.87
II. Cash flows from investing operating activities			
Investment return		3,344,000.00	3,344,000.00
Cash received from selling subsidiary		-	-
Cash received from investment income		1,591,005.79	1,591,005.79
Disposal of fixed assets, intangible assets and other long-term assets		9,448,882.39	1,002,072.39
Cash received from other investing activities		-	-
Sub-total cash gained on investment		14,383,888.18	5,937,078.18
Purchase of fixed assets, intangible assets and other long-term assets		115,483,693.94	102,825,879.70
Cash paid for investment		6,003,700.00	6,003,700.00
Cash paid for purchasing subsidiary		-	-
Cash used in other investing activities		-	-
Sub-total out flow of cash		121,487,393.94	108,829,579.70
Net cash generated from investing activities		-107,103,505.76	-102,892,501.52
III. Cash flows from financing activities			
Cash received from absorbing investment		-	-
Cash from borrowings		1,139,256,000.00	569,168,000.00
Cash received from other financing activities		-	-
Sub-total cash gained on financing activities		1,139,256,000.00	569,168,000.00
Cash paid for liabilities		1,173,891,726.00	499,866,700.00
Cash paid for dividends or profit distributing, repayment of interest		36,805,342.62	18,133,450.21
Cash paid by subsidiary to minority interest		-	-
Cash used in other financing activities		-	-
Sub-total out flow of cash		1,210,697,068.62	518,000,150.21
Net cash generated from financing activities		-71,441,068.62	51,167,849.79
IV. Adjustment on foreign exchange			
		-	-

V. Net increase in cash /cash equivalent	47,277,286.23	5,232,563.14
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SUPPLEMENTARY STATEMENTS OF CASH FLOWS

Items	Consolidated	Parent company
I. Net profit subject to adjustment as cash flows		
Profit, net	79,689,551.67	76,446,236.67
Plus: Losses/gains of minority interests	19,894,367.98	-
Provision for fixed assets devaluation	5,900,196.87	5,159,548.36
Fixed assets depreciation	43,167,100.71	27,784,717.61
Allocations of intangible assets	3,740,870.43	42,873.30
Allocations of long-term expenses to be allocated	-	-
Decrease of expenses to be allocated (less increase)	-	-
Increase of advance allocation expenses (less decrease)	37,864,380.17	4,777,381.55
Disposal of fixed, intangible and other long-term assets (less gains)	655,238.27	639,158.53
Losses from obsolete fixed assets	-	-
Financial expenses	35,598,891.66	16,642,177.15
Losses from investment (less gains)	3,401,717.36	-56,871,807.00
Deferred taxation, credit (less debit)	-	-
Decrease of inventory (less increase)	74,916,029.96	4,171.27
Decrease of operating receivables (less increase)	-257,060,034.75	-140,393,152.65
Increase of operating payables (less decrease)	174,398,199.79	122,725,910.08
Other	3,655,350.49	-
Net cash generated from operations	225,821,860.61	56,957,214.87
II. Investment and financial activities not related to cash flows		
Capital transferred from debts	-	-
Convertible company bonds due within one year	-	-
Fixed assets leasing for financing	-	-
III. Net increase in cash /cash equivalent		
Balance of cash at period-end	821,469,004.76	334,895,429.85
Less: Balance of cash at period-beginning	774,191,718.53	329,662,866.71
Add: Balance of cash equivalent at period-end	-	-
Less: Balance of cash equivalent at period-beginning	-	-
Net increase in cash /cash equivalent	47,277,286.23	5,232,563.14

SCHEDULE OF ASSETS IMPAIRMENT LOSSES

Prepared by Weifu High-Technology Co., Ltd.

Jan.-Jun., 2006

Unit: RMB

Items	Balance at the begin of the year	Increase in this year	Decrease in this year			Total	Balance at the end of the year
			Switching back due to assets price recovery	Switching out due to other reason			
I. Total of provision for bad debts	74,987,164.89	7,787,090.01	200,000.00	34,087.37	234,087.37	82,540,167.53	
Including: Accounts receivable	70,124,435.97	7,787,090.01	-	27,822.70	27,822.70	77,883,703.28	
Other receivable	4,862,728.92	-	200,000.00	6,264.67	206,264.67	4,656,464.25	
II. Total of provision for falling price of short-term investment	-	-	-	-	-	-	
Including: Stock investment	-	-	-	-	-	-	
Bond investment	-	-	-	-	-	-	
III. Provision for falling price of inventory	33,888,310.53	6,477.32	148,786.58	-	148,786.58	33,746,001.27	
Including: Merchandise inventory	21,523,596.00	-	148,786.58	-	148,786.58	21,374,809.42	
Work in process	2,629,747.72	1,831.51	-	-	-	2,631,579.23	
Raw material	9,734,966.81	4,645.81	-	-	-	9,739,612.62	
IV. Total of provision for devaluation of long-term investment	44,166,436.95	-	-	-	-	44,166,436.95	
Including: Long-term equity investment	44,166,436.95	-	-	-	-	44,166,436.95	
Long-term debts investment	-	-	-	-	-	-	
V. Total of provision for devaluation of fixed assets	6,390,099.53	-	-	1,654,935.35	1,654,935.35	4,735,164.18	
Including: Building	-	-	-	-	-	-	
Machinery and equipment	6,390,099.53	-	-	1,654,935.35	1,654,935.35	4,735,164.18	
VI. Provision for devaluation of intangible assets	-	-	-	-	-	-	
Including: Patent right	-	-	-	-	-	-	
Trademark right	-	-	-	-	-	-	
VII. Provision for devaluation of construction in progress	-	-	-	-	-	-	
VIII. Provision for devaluation of commission loan	-	-	-	-	-	-	
Total	159,432,011.90	7,793,567.33	348,786.58	1,689,022.72	2,037,809.30	165,187,769.93	

**CONSOLIDATED CHANGE STATEMENT OF INCREASE OR DECREASE
OF SHAREHOLDERS' EQUITY**

Prepared by Weifu High-Technology Co., Ltd.

Unit: RMB

Items	Order	Jan.-Jun, 2006	2005
I. Share equity:			
Balance in the year-begin	1	567,275,995.00	436,366,150.00
Increased number in the year	2	-	130,909,845.00
Including: Transfer-in of capital reserve	3		
Transfer-in of surplus reserve	4		
Transfer-in of profit distribution	5		130,909,845.00
New-added share equity	6		
Decrease in the year	10		
Balance in the year-end	15	567,275,995.00	567,275,995.00
II. Capital reserve:			
Balance in the year-begin	16	925,249,818.64	922,231,186.44
Increased in the year	17	-	3,018,632.20
Including: Premium of share equity	18		
Non-cash capital reserve of received donation	19		
Cash received donation	20		
Prevision for investment of share equity	21		3,018,632.20
Transfer-in of allocation of funds	22		
Conversion difference of foreign capital	23		
Other capital reserve	30		
Decreased number in the year	40		
Including: increase in the share equity	41		
Balance in the year-end	45	925,249,818.64	925,249,818.64
III. Statuary and free surplus reserve:			
Balance in the year-begin	46	179,426,807.02	149,021,955.90
Increased in the year	47	-	30,404,851.12
Including: drew in the net profit	48	-	30,404,851.12
Including: statuary surplus reserve	49		28,655,324.77
Free surplus reserve	50		
Store funds			1,166,350.90
Enterprise development funds			583,175.45
Transfer-in of statuary welfare funds	53		
Decreased number in the year	54		
Including: Makeup losses	55		
Increase in the share equity	56		
Dispatch of cash equity	57		
Dispatch of share equity	58		
Balance in the year-end	62	179,426,807.02	179,426,807.02
Including: statuary surplus reserve	63	175,892,686.19	175,892,686.19
IV. Statuary welfare funds			
Balance in the year-begin	66	88,022,254.67	73,694,592.28
Increased number in the year	67	-	14,327,662.39
Including: drew in the net profit	68		14,327,662.39
Decrease in the year	70		
Including: cost of community welfare	71		
Balance in the year-end	75	88,022,254.67	88,022,254.67
V. undistributed profit :			
Undistributed profit in the year-begin	76	582,007,325.85	619,996,364.01
Net profit in the year(net loss listed as "-")	77	79,689,551.67	181,905,034.46
Profit distribution in the year	78		219,894,072.62

Undistributed profit in the year-end (non-compensated loss listed as “-”)	80	661,696,877.52	582,007,325.85
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Notes to the Accounting Statements

Note 1. Company Profile

By the approval of STGS (1992) No. 130 issued by Jiangsu Economic Restructuring Committee (hereinafter referred to as Jiangsu ERC), Wuxi Weifu High-Technology Co., Ltd was established as a company of limited liability with funds raised from targeted sources, and registered at Wuxi Administration of Industry & Commerce in October 1992. The original share capital of the Company totaled RMB 115.4355 million, including a state-owned share capital of RMB 92.4355 million, a public corporate share capital of RMB 8 million and an inner employee share capital of RMB 15 million.

In the year 1994 and 1995, the Company was restructured and became a shareholding subsidiary of Wuxi Weifu Group Co., Ltd (hereinafter referred to as “Weifu Group”).

By the approval of Jiangsu ERC and Shenzhen Securities Administration Office in August 1995, the Company issued 68 million special ordinary shares, with a face value of RMB 1 for each share, and the total value of those shares amounted to RMB 68 million. After the issuance, the Company’s total share capital increased to RMB 183.4355 million.

By the approval of CSRC in June 1998, the Company issued 120 million RMB ordinary shares (A-share) at Shenzhen Stock Exchange through on-line pricing and issuing. After the issuance, the total share capital of the Company amounted to RMB 303.4355 million.

In the middle of 1999, deliberated and approved by the Board and Shareholders’ General Meeting, the Company implemented the plan of granting 3 bonus shares for each 10 shares. After that, the total share capital of the Company amounted to RMB 394.46615 million, of which state-owned shares amounted to RMB 120.16615 million, public corporate shares RMB 10.4 million, foreign-funded shares (B-share) RMB 88.40 million, RMB ordinary shares (A-share) RMB 156 million and inner employee shares RMB 19.5 million.

In the year 2000, by the approval of the CSRC and based upon the total share capital of 303.4355 million shares after the issuance of A-share in June 1998, the Company allotted 3 shares for each 10 shares, with a price of RMB 10 for each allotted share. Actually 41.9 million shares was allotted, and the total share capital after the allotment increased to RMB 436.36615 million, of which state-owned corporate shares amounted to RMB 121.56615 million, public corporate shares RMB 10.4 million, foreign-funded shares (B-share) RMB 88.4 million and RMB ordinary shares (A-share) RMB 216 million.

In April 2005, Board of Directors of the Company has examined and approved 2004 Profit Pre-distribution Plan, and examined and approved by 2004 Shareholders’ General Meeting , the Company distributed 3 shares for each 10 shares to the whole shareholders totaling to 130,909,845 shares in 2005.

On March 21, 2006, the Share Merger Reform plan of the Company has approved by State-owned Assets Supervision & Administration Committee of the People’s Government of Jiangsu Province (SUGZF[2006]No.61), examined and approved by

related shareholders' meeting of A-share market of the Company dated March 27, 2006, and formally implemented on April 5, 2006, the abbreviation of the stock has changed from "WF HI-TECH" into "G Weifu". Total shares remains to be RMB 567,275,995 after share reform, including: state-owned legal share amounting to RMB 114,061,978, social legal share amounting to RMB 9,758,017, foreign capital share (B shares) amounting to RMB 114,920,000 and RMB common share (A shares) amounting to RMB 328,536,000.

The Company registered at the Wuxi High and New Technology Development Zone and the registration number was 25045696-7. The Company belongs to the mechanical industry and mainly engages in the production and sales of fuel injection pump of the diesel internal combustion engine as well as the injector and other matching parts used in the fuel injection pump.

Note 2. Principal Accounting Policies, Estimations and Consolidation

All information contained in the Company's financial statements were prepared in conformity with the "Enterprise Accounting Guideline", "the Accounting Regulations of Joint Stock Limited Companies" and the relevant supplementary regulations applicable to joint stock limited companies in the P.R.C as well as the Company's practical circumstance.

1. Accounting Period

The accounting period of the Company coincides with the Gregorian calendar year (from 1st January to 31st December).

2. Reporting Currency

The Company uses Renminbi (RMB) as the unit of currency in the preparation of its accounts.

3. Accounting Principle and Pricing Basis

The Company maintains its accounting books using the accrual method. Its pricing is based on historical cost.

4. Cash Equivalent

Cash Equivalent refers to short-term investment easy to be converted to cash with less risks of falling in its value.

5. Foreign Currency Translation

The Company and its subsidiaries maintain their books and records in RMB. Transactions in other currencies are translated to RMB at the basis exchange rates published by the People's Bank of China at the time of transactions. The ending balances of the various currency accounts are converted to RMB according to the basis exchange rates at the end of accounting period. The differences arising from the adjustment will be treated as exchange gain or loss or capitalized.

6. Short-term Investment

Definition of short term investments: short-term investment refers to investment to be realized within one year from the balance sheet date, which shall be easy to be converted to cash at any time.

Accounting of short-term investments and confirmation of income: the accounting of short-term investment is made based on the actual cost paid (including taxation and service charges, etc.) deducting the cash dividend declared or interest accrued but not yet collected. Dividend and interest income received from short-term investment shall be deducted from the book value of the short-term investment. Return on short-term investment of the accounting period shall be determined by reference to the difference between its book value in the accounting period and income received from disposal of the short-term investment.

Depreciation reserves for short-term investments: at the end of the period, short-term investment shall be accounted for in accordance with the lower amount between the marketable price and the actual payment, and the Company shall make provisions for short-term investment devaluation in accordance with the differences in the case that the marketable price is lower than the actual payment. In the event of a recovery of the confirmed losses in value of the short-term investment occurred, it shall be restated on the basis of its booking value.

7. Provision for bad and doubtful debts

Definition of bad debts: the bad debt is determined as such when (a) the debtor is bankrupt or dead, and the proceeds from the bankrupt's estates or the decreased property are unable to cover the debt; (b) the debtor fails to repay the overdue debt with plain evidences to indicate his inability to do so. The confirmed irrecoverable account receivables are treated as loss on bad debt after approval, which will be written off from the provision for bad debt.

Accounting of bad debt loss: bad debt loss would be calculated in the allowance method.

Bad debt reserves: the Company makes a general provision for bad and doubtful debts at the end of the accounting year as follows. The general provision is a certain percentage of the receivables (account receivables and other receivables) according to

the year overdue except for debtors recognized individually according to their financial position and cash flows.

Proportions of bad debt reserve withdrawn are as follows:

Age	Percentage withdrawn
Within 1 year	5%
1-2 years	10%
2-3 years	30%
3-4 years	50%
4-5 years	80%
Over 5 years	100%

8. Inventories

Classification of inventories: the inventory includes stock materials, low-value consumables, work-in-progress and finished goods etc.

Pricing of inventories: stock materials are accounted for at the planned cost daily. The differences in cost in each period shall be delivered to historical cost at the end of accounting period. Finished goods are stated at actual cost and calculated using the weighted average method.

Amortization of low-valued and easily-worn articles: low-value consumables is valued at the actual cost upon its acquisition and expended entirely upon incurring or amortized within one year if acquired in large quantities on commencement of business.

Inventory system: perpetual inventory system

Inventory depreciation reserves: provision for inventory falling in price is allocated in accordance with the differences between the residual value of inventory at the end of accounting period and its cost and treated as gain or loss of the accounting period.

9. Long-term Investment

Valuation of long-term investment in equity: Investment in equity is valued at the initial investment cost at the time of acquisition. Initial investment cost shall be accounted for in the following ways: (1) Based on actual payments including such various expenses as taxation, service charges related to the cash acquisition. Where the actual payments include cash dividends declared to be distributed but not yet collected by the investee company, that portion of the dividends shall be deducted from the actual payments. (2) Based on the book value of claims receivables plus the related taxation payables where the equity is acquired through accepting the debtor's material assets as repayment of the debts, or converted from the claim receivables. (3) Based on the book value of the assets exchanged for the equity plus the related

taxation payables where the equity is acquired through non-currency assets transactions.

Recognition of return on investment in equity: Investments in associated companies in which the Company holds more than 20% (including 20%) of the equity interest are accounted for under the equity method. The cost method is used in accounting for investments in those enterprises in which the Company holds less than 20% of the equity interest. Upon disposal of a long-term investment in equity, the difference between the carrying amount of the investment and net disposal proceeds shall be treated as gains or losses on investment.

Difference in equity investment: Investment in equity is valued at the initial investment cost when it is accounted for under the equity method. Difference in equity investment refers to the difference between the initial investment cost and the owner's enjoyable equity in the investee company. The difference that the initial investment cost exceeds the owner's enjoyable equity in the investee company is amortized according to the investment period if the investment period is stipulated in the contract; this period is not stipulated in the investment contract, the amortization period shall not exceed 10 years; the difference that the initial investment cost is lower than the owner's enjoyable equity is reckoned into capital reserve.

Valuation of long-term investment in debentures: Investment in debentures is valued at the initial investment cost at the time of acquisition. Initial investment cost shall be accounted for in the following ways:

- (1) Based on actual payments including taxation, service charges and other expenses related to the cash acquisition, deducting the interests accrued but not yet collected by the Company.
- (2) Based on the book value of claims receivables plus the related taxation payables where the debentures are acquired through accepting the debtor's material assets as a repayment of the debts, or converted from the claim receivables.
- (3) Based on the book value of the assets exchanged for the debentures plus the related taxation payables where the debentures are acquired through non-currency assets transactions.

Premium or discount of investment in debentures: Premium or discount of long-term investment in debentures refers to the difference between the nominal value of the debentures and the balance of the initial cost actually paid deducting such surcharges as taxation, service charges, and the interest payable accrued. The premium or discount of long-term investment in debentures shall be amortized on straight-line basis within the debenture-holding period.

Provision for investment in equity devaluation: At the end of the accounting period, provision for long-term investment devaluation shall be made in accordance with the difference of the recoverable amount less than the book value of the long-term investment due to declining market value or the worsening of the business operation in the investee company, which shall be charged or credited to the statement of income of the accounting period.

10. Fixed Assets and Depreciation

Definition of fixed assets: the fixed assets refer to housing, buildings, machinery and equipment, means of transportation and other equipment, instrument and tools related to production and operation as well as other assets not in connection with production and operation with a unit value more than RMB 2,000 spanning over 2 years of useful life.

Pricing of fixed assets: fixed assets shall be accounted for at actual cost upon its acquisition.

Classification and deprecation of fixed assets: depreciation of fixed assets is calculated on the straight-line basis at annual rates estimated to write off the cost after taking into account the estimated residual value of each asset over its expected useful life (3% of the original value). The estimated useful lives are as follows:

Fixed assets	Estimated useful lives (year)	Depreciation Rates
Buildings	20~35	2.77%~4.85%
Special Machinery and Equipment	10.5	9.24%
Transportation	10	9.7%
General Machinery and Equipment	10~16	6.06%~9.7%
Other equipments	5~10	9.7%~19.4%

Depreciation reserves for fixed assets: in the case that the recoverable value of fixed assets is lower than its carrying value in accounting books, provision for fixed assets depreciation shall be made in accordance with the difference between its recoverable value and carrying value in accounting books at the year-end.

11. Construction-in-progress

Confirmation of the time construction-in-progress carried down to fixed assets: construction-in-progress represents plant and properties under construction, and is carried out based on the actual expenditure. After the project is completed, accepted and hand over for use, the corresponding amount of construction in progress will be transferred into the fixed assets in the mean time.

Depreciation reserves for construction-in-progress: upon the overall examination at the end of the accounting period, provision for construction in progress devaluation shall be made in the event that a devaluation of construction in progress has occurred with plain evidences to indicate that: 1) construction has stopped already and is estimated not to be restarted in the next 3 years; 2) economic return on the construction in progress is ultimately uncertain with inferior construction quality and backward technology; 3) devaluation has occurred under other circumstances.

12. Valuation of intangible Assets and its amortization method

Valuation of intangible assets: Intangible assets are valued at the actual cost at the time of acquisition, which shall be accounted for in the following ways: 1) based on the actual payments; 2) based on the value recognized by all investment parties; 3) based on the book value of claims receivables plus the related taxation payables where the intangible assets are acquired through accepting the debtor's material assets as an repayment of the debts, or converted from the claim receivables; 4) based on the book value of the assets exchanged for intangible assets plus the related taxation payables where the intangible assets are acquired through non-currency assets transactions; 5) based on the such expenses as registered charges, layer fees, etc. where the intangible assets are acquired through self-development and lawful application.

Amortization of intangible assets: Intangible assets are amortized by equal installments over its estimated useful life commencing from the month for the acquisition of the intangible assets on the straight-line basis. Provided the estimated useful life exceeds the beneficiary period stipulated by the related contract or the effective period stipulated by the related laws, the amortization period for the intangible assets shall be determined in the following ways: 1) not exceed the beneficiary period stipulated by contracts where no effective period is stipulated by the laws; 2) not exceed the effective period stipulated by the laws where no beneficiary period stipulated by contracts; 3) not exceed the shorter one of the above two periods if stipulated respectively; 4) not exceed 10 years if the above two periods are not stipulated explicitly.

The amortization period for the Company's intangible assets is as follows:

- (1) The land use right would be amortized over 50 years on average;
- (2) The trademark use right of Nanjing Weifu Jinning Co., Ltd (shareholding subsidiary, hereinafter referred to as "Weifu Jinning") would be amortized over 30 years on average; except for the land use right at the High and New Technology Development Zone amortized over 50 years, other land use right would be amortized over 30 years; computer software would be amortized as per 5 years.
- (3) The exclusively owned technology of Wuxi Weifu Environmental Protection Catalyst Co., Ltd (a joint venture, hereinafter referred to as "Weifu Environmental Protection") would be amortized over 10 years;
- (4) The franchise of Wuxi Weifu Automotive Diesel System Co., Ltd (shareholding

subsidiary, hereinafter referred to as “Weifu Diesel System”) would be amortized over 10 years; administrative software would be amortized as per 5 years.

Depreciation reserves for intangible assets: the Company would check the future profitability of each intangible asset at the end of the period, and withdraw depreciation reserves for those with an estimated recoverable value lower than their book value.

The book value of intangible assets would be checked at the end of the period. Should one or more of the following cases exist, the Company would make an estimation about the intangible assets’ recoverable value and withdraw depreciation reserves for the part by which the book value of the intangible assets are higher than their recoverable value. (1) The intangible asset has been replaced by other new technology, and great disadvantageous influence on its profitability is great; (2) The market value of the intangible asset has fallen by a large margin and there is little chance that it would recover in the remaining amortization term; (3) This intangible asset has exceeded the term of legal protection but still has some useful value; (4) Other signs that could prove the depreciation of the intangible asset in nature.

If the intangible asset could bring economic interests no more, its book value would be charged off. Intangible assets that could not bring economic interests any more according to estimation are as follows: (1) The intangible asset has been replaced by other new technology and has neither useful value nor transfer value; (2) The intangible asset has exceeded the term of legal protection, and could bring the Company economic interests no more; (3) Other signs prove that the intangible asset has lost both useful value and transfer value.

13. Long-term Expenses to Be Amortized

Start expenses are included in the long-term expenses to be amortized at first, and shall be treated as gains or losses in the statement of income of the first month of production and operation. Expenditures for the overhaul and repairs of fixed assets shall be amortized by equal installments over the interval between the overhaul and repairs. Expenditures for the improvement of the leasehold fixed assets shall be amortized by equal installments over the shorter one between the leasehold duration and its useful life. Other long-term expenses shall be amortized by equal installments over the beneficiary period.

Provided that no economic return is expected in the accounting period ahead, the remaining value of long-term expenses to be amortized shall be treated as gains or losses in the statement of income in the period.

14. Revenue Recognition

Sales of commodities: for the sale of product, the revenue is recognized when all of the followings have taken place: 1) The significant risk in connection with the

ownership of the product and the payment have transferred to the buyer so that the Company no longer has custody and control over the product; 2) The income from the sale or the voucher of the payment has been received; 3) The cost in relation to the product sale can be measured accurately.

Labor service: for the supply of labor service, the revenue is recognized when all of the followings have taken place: 1) the supply of labor service has been completed within one accounting year since its commence; 2) provided it is probable that the economic benefits associated with a transaction will flow to the Company, the revenue and costs, if applicable, can be measured reliably and the extent of the completion of labor service can be confirmed reliably, even the commence and completion of the labor service spans over one accounting year, the revenue can be recognized according to the percentage of the extent of the completion on the balance sheet date.

Transfer of assets use right: for the assets use right, the revenue is recognized when all of the followings have taken place: 1) provided it is probable that the economic benefits associated with a transaction will flow to the Company, the amount of income can be measured reliably; 2) interest income is recognized on a time proportion basis that take into account the applicable interest rate on the assets; 3) income from the assets utilizing may be calculated and determined in accordance with the relevant contracts or agreements.

15. Income Taxation

The accounting of the income taxation is based on tax payable method.

16. Principle of Consolidation

The Scope of Consolidation: Subsidiary in which the Company (i) holds, directly or indirectly, more than 50% (excluding 50%) of its issued voting share capital/the equity interest as a long-term investment;(ii) has the power to cast a majority of votes at meetings of the board of directors or the management committee is stated in consolidated financial statements under the equity method. However, if the results of operations and the net assets of such a subsidiary are not material to those of the Company, no consolidated financial statements are prepared.

The Method of Consolidation: unifying accounting policies between the Company and its subsidiaries; writing-off the interactive investment, sales and purchase of assets and other transactions; consolidating and recognizing minority interests.

Note 3. Taxes

1. Circulation tax

Value-added tax: sales of commodities would be taxed value-added tax and the tax

rate is 17%.

Business tax: 5% of the incomes such as lease income, etc would be taxed as business tax.

2. Circulation tax addition

The Company and the subsidiaries pay urban maintenance and construction taxes, which are 7% of the total sum of value-added tax and business tax payable, and education additional charges, which are 4% of the total sum of value-added tax and business tax payable.

Weifu Environmental Protection pays an educational charge about 1% of the total sum of value-added tax and business tax payable.

3. Income tax

The Company and the subsidiaries Weifu Jinning, Wuxi Weifu Lida Catalytic Converter Co., Ltd, and Weifu Diesel System are all high-tech enterprises registered at the High and New Technology Development Zone, and enjoy a preferential tax rate of 15% according to relevant state regulations on income taxation; Weifu Diesel System enjoys the preferential tax policy of 2-year exemption since its profit-making year;

Weifu Environmental Protection is a Sino-foreign joint venture and enjoys a preferential tax policy of 2-year exemption and 3-year half taxation, with the enterprise income tax of the year exempted.

Income tax rates of other shareholding subsidiaries are all 33%.

Note 4. Shareholding Subsidiaries and Joint Ventures

1. Shareholding subsidiaries

Shareholding subsidiaries refer to investees for which the Company's investments take up over 50% of their total registered capital (excluding 50%), or which have actually been controlled by the Company even though the Company's investments take up less than 50% of their total registered capital.

By Jun. 30, 2006, the Company's shareholding subsidiaries are as follows:

Investee	Registration place	Registered capital (RMB'0000)	Equity held (%)	Business scope
Weifu Jinning	Downtown Nanjing	25,600.00	80.00	Accessories and matching parts of internal combustion engine
Wuxi Weifu Mashan Oil Pump and Oil Nozzle Co., Ltd	Mashan, Wuxi	4,500.00	92.60	Accessories and matching parts of internal combustion engine
Wuxi Weifu-Jilin University New Material Application and Development Co., Ltd	Development zone, Wuxi	500.00	70.00	Metal nano powder
Wuxi Weifu Chang'an Oil Pump and Oil Nozzle Co., Ltd	Chang'an, Wuxi	6,000.00	94.63	Accessories and matching parts of internal combustion engine
Jiangsu Weifu Nano-Science and Technology Co., Ltd	Huishan District, Wuxi	3,000.00	80.00	Nano materials
Weifu Lida Catalytic Converter Co., Ltd	New District, Wuxi	26,000.00	94.81	Muffle, purifier

Weifu Diesel System	New District, Wuxi	20,000.00	70.00	Accessories and matching parts of internal combustion engine
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Jiangsu Weifu Nano-Science and Technology Co., Ltd hereinafter referred to as “Weifu Nano”; Weifu Lida Catalytic Converter Co., Ltd, “Weifu Lida”.

2. Change of the consolidation scope of the accounting statements

Investee	Consolidation scope of last year	Consolidation scope of this year	Reasons for the change
Weifu Jinning	Yes	Yes	No change
Weifu Mashan	No	No	No change
Weifu Jilin University	No	No	No change
Weifu Chang’an	No	No	No change
Weifu Nano	Yes	Yes	No change
Weifu Lida	Yes	Yes	No change
Weifu Diesel System	Yes	Yes	No change

Since the sums of the total assets, business income and net profit of Wuxi Weifu Mashan Oil Pump and Oil Nozzle Co., Ltd (hereinafter referred to as Wuxi Mashan), Wuxi Weifu-Jilin University New Material Application and Development Co., Ltd (Wuxi Jilin University), and Wuxi Weifu Chang’an Oil Pump and Oil Nozzle Co., Ltd (hereinafter referred to as Wuxi Chang’an) are small, they have not been consolidated, which is in conformity with the regulations stipulated in the CKEZ (96) No. 2 Reply to the Question on the Scope of the Consolidation Statements.

3. Joint venture

Joint venture refers to enterprises whose operating activities are controlled by 2 investors or more according to articles of a contract.

By Jun. 30, 2006, the Company’ joint venture companies are as follows:

Investee	Registration place	Registered capital (RMB’0000)	Equity held (%)	Business scope
Weifu Environmental Protection	New District, Wuxi	5,000.00	49.00	Catalyst
Weifu-Autocam	New District, Wuxi	USD600.00	50.00	Accessory of automobiles
Chaoyang Weifu-Jialin	Development Zone, Chaoyang	800.00	50.00	Fittings and accessories of internal combustion engine

Weifu Environmental Protection: founded collectively by Weifu Lida, which is the Company’s subsidiary; Huawei (Shanghai) Nano-Technology Co., Ltd and BVI Yingdong Holdings Co., Ltd in May 2004. According to the Company’s Articles of Association, Weifu Lida, Huawei (Shanghai) Nano-Technology Co., Ltd and BVI Yingdong Holdings Co. would jointly control this company. The Company has included it in the scope of consolidation statements in the proportion method.

Wuxi Weifu-Autocam Fine Machinery Co. LTD. (hereinafter referred to as Weifu-Autocam): a Sino-Foreign joint venture company founded by the Company and American Autocam in August 2005. Each of the two parties holds a stake of 50% in Weifu-Autocam and control the company jointly. This year is still the preparing period.

Chaoyang Weifu-Jialin Machinery Manufacturing Co. LTD (hereinafter referred to as Chaoyang Weifu-Jialin): a limited company founded by the Company and Chaoyang Jialin Machinery Manufacturing Co. LTD in May 2006. Each of the two parties holds a stake of 50% in Chaoyang Weifu-Jialin and control the company jointly. This year is still the preparing period.

Note 5. Commentary on the piece de **resistance** of consolidated financial statements

1. Cash capital

	<u>Jun. 30, 2006</u>	<u>Dec. 31, 2005</u>
	RMB'000	RMB'000
Cash	754	145
Current deposit in bank (RMB)	388,656	367,760
Current deposit in bank (US\$ 3,434,000)	27,484	27,348
Current deposit in bank (EUR 407,000)	4,127	321
Current deposit in bank (JPY 40,430,000)	2,808	587
Fixed deposit in bank	151,500	142,334
Other cash capital (RMB)	155,477	135,110
Other cash capital (EUR 5,002,000)	50,676	100,587
Other cash capital (US\$ 5,001,000)	39,987	
	<u>821,469</u>	<u>774,192</u>

[Note 1] RMB 152,000,000 of the Other Cash Capital (RMB) at period- end is deposit for banker's acceptance bills; another RMB 3,476,500 equals to the amount of Certificates of Deposit of bank loans.

[Note 2] The Other-cash-capitals are the deposits in foreign currencies (EUR 5,000,000 and US\$ 5,000,000) which is supposed to Weifu Diesel System

2. Notes receivable

Notes receivable of the Company at period- end is RMB 315,170,017, including banker's acceptance bills amounting to RMB 292,370,017 and commercial acceptance bills amounting to RMB 22,800,000, all of which are due on Dec. 31, 2006. Among them, RMB 14,670,000 is deposit for notes receivable.

3. Accounts Receivable

<u>Jun. 30, 2006</u>				
<u>Amount</u>	<u>Proportion</u>	<u>Provision for bad debt</u>	<u>Proportion of Provision</u>	<u>Net amount</u>
RMB'000	(%)	RMB'000	%	RMB'000

Within 1 year		799,208	89.20	33,236	4.16	765,972
Between	1-2	55,710	6.22	5,571	10.00	50,139
Between	2-3	2,206	0.24	662	30.00	1,544
Between	3-4	695	0.08	347	50.00	348
Between	4-5	666	0.07	532	80.00	134
Over 5 years		1,437	0.16	1,437	100.00	-
Recognized	by	36,098	4.03	36,098	100.00	-
		<u>896,020</u>	<u>100.00</u>	<u>77,883</u>	<u>8.69</u>	<u>818,137</u>

Dec. 31, 2005

	Amount	Proportion	Provision or bad debts	Proportion of provision	Net amount
	RMB'000	%	RMB'000	%	RMB'000
Within 1 year	719,365	93.89	28,909	4.02	690,456
Between 1-2 years	4,624	0.60	462	10.00	4,162
Between 2-3 years	1,663	0.22	494	30.00	1,169
Between 3-4 years	230	0.03	115	50.00	115
Between 4-5 years	511	0.07	409	80.00	102
Over 5 years	1,962	0.26	1,962	100.00	-
Recognized	37,774	4.93	37,774	100.00	-
by single					
	<u>766,129</u>	<u>100.00</u>	<u>70,125</u>	<u>9.15</u>	<u>696,004</u>

[Note 1] The outstanding amount of this account does not include debts owned by major shareholders possessing more than 5% (including 5%) of the Company's shares.

[Note 2] Provisions for bad debts have been made for the outstanding amounts of receivables according to the Company's financial policies.

Accounts receivable of provision for bad debts with the recognized by single is mainly according to the relevant information of the client's actual financial situations and cash flows and the client's repayment status, thus, the said accounts receivable are fully appropriated based on wariness principle.

[Note 3] The top five outstanding amounts of accounts receivable amounted to RMB 472,739,822, accounting for 52.76% of the total.

[Note 4] The outstanding amount of accounts receivable does not include receivables owned by the related parties.

4. Other receivables

Jun. 30, 2006

	Amount	Proportion	Provision for bad debt	Proportion of provision	Net amount
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)
Within 1 year	41,843	78.51	71	0.17	41,772

Between 1-2 years	191	0.36	19	10.00	172
Between 2-3 years	6,662	12.50	-	-	6,662
Between 3-4 years	14	0.03	7	50.00	7
Between 4-5 years	50	0.09	25	50.00	25
Over 5 years	31	0.06	31	100.00	-
Recognized	4,504	8.45	4,504	100.00	-
by single					
	<u>53,295</u>	<u>100.00</u>	<u>4,657</u>	<u>8.74</u>	<u>48,638</u>

Dec. 31, 2005					
	Amount	Proportion	provision for	Proportion of	Net amount
	(RMB'000)	(%)	bad debts	provision	(RMB'000)
			(RMB'000)	(%)	
Within 1 year	26,226	45.60	300	1.14	25,926
Between 1-2 years	21	0.04	2	9.52	19
Between 2-3 years	26,686	46.40	7	0.03	26,679
Between 3-4 years	54	0.09	27	50.00	27
Over 5 years	23	0.04	23	100.00	-
Recognized by single	4,504	7.83	4,504	100.00	-
	<u>57,514</u>	<u>100.00</u>	<u>4,863</u>	<u>8.46</u>	<u>52,651</u>

[Note 1] The outstanding amount of this account does not include debts owned by major shareholders possessing more than 5% (including 5%) of the Company's shares.

[Note 2] Bad debt reserves for payments owed by subsidiaries and related companies, provision for employees and payment owed by New District Land Administrative Bureau of Wuxi have not been prepared and not been consolidated in the Other-receivables. Except the aforementioned, bad debt reserves have been prepared in proportion.

[Note 3] Receivables owned by the related parties (see "note 7-9").

[Note 4] The top 5 other receivables of this account amounted to RMB 46,384,504 taking up 87.03% of the total. The mostly arrearage companies are as following:

	Nature or Content	Jun. 30, 2006
		Unit: RMB
Bosch Auto Diesel System	Sales of goods	18,886,055
Weifu Mashan FIE Co.	Sales of goods	14,010,563
New District Land Administrative Bureau of Wuxi [note 5]	Land purchasing	6,661,861
Nanjing University etc. [note 6]	Advance investment fund	4,400,000
Weifu Precision Manufacturing	Sales of goods	2,426,025

[Note 5] By Jun. 30, 2006, New District Land Administrative Bureau of Wuxi had repaid RMB 20,000,000 of land purchasing.

[Note 6] Arrears of RMB 2,400,000 from Nanjing University, Southeast University, Nanjing Science and Technology University and Nanjing Industrial University was that the Company paid the investment funds of RMB 600,000 instead of the above each universities when Weifu Nanometer Co. was jointly sponsored by the Company and the aforesaid four universities, which will be returned annually by using the dividends from Weifu Nanometer Co. according to the related agreement. RMB 2,000,000 owed by Jiangsu Province Technology & Science Center was the Company's advance money. As there are difficulties in repaying the aforementioned funds by dividends from Weifu Nanometer Co., in accordance with Prudence Principle, 100% bad debt reserves have been accrued.

5. Inventory

	Jun. 30, 2006		Dec. 31, 2005	
	Amount	Provision for inventory	Amount	Provision for inventory falling
	RMB'000	RMB'000	RMB'000	RMB'000
Stock materials	150,398	9,740	197,356	9,735
Work-in-progress	112,384	2,631	91,798	2,630
Finished goods	404,340	21,375	465,496	21,523
	<u>667,122</u>	<u>33,746</u>	<u>754,650</u>	<u>33,888</u>

[Note 1] The net realizable value of the inventories is determined by reference to the estimated price for sales of inventories deducting the estimated finished cost and sales expenses in the normal course of operation.

6. Long-term equity investment

(1) Investment in unconsolidated subsidiaries and enterprises recognized under equity method.

Name of investees	Investment proportion	Original investment cost	Amount at period beginning	Increase/decrease in investment in the period	Increase/decrease in equity in the period	Portion of bonus	Increase/decrease in accumulated equity	Amount at period-end
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Weifu Mashan FIE Factory	92.60%	44,368	44,287	-	324	-	243	44,611
Weifu Jilin University New Material Co.	70.00%	3,500	1,611	-	-160	-	-2,049	1,451
Weifu Chang'an Pump Factory	94.63%	77,330	73,873	-	443	-	-3,014	74,316
Bosch Auto Diesel System	31.50%	543,107	526,696	-	-31,547	-	-47,958	495,149
Zhonglian Automobile Electronic Co.	20.00%	120,124	215,702	-	28,000	-	123,578	243,702

Weifu Precision Manufacturing	20.00%	2,000	4,112	-	201	-	2,313	4,313
Wuxi Longsheng Technology Co., Ltd.	20.00%	200	300	-	-	-	100	300
Weifu International Trade	45.00%	2,250	3,044	-	41	-	835	3,085
Weifu-Autocam (Note 1)	50.00%	5,643	3,639	2,004	-	-	-	5,643
Chaoyang Weifu-Jialin (Note 2)	50.00%	4,000	-	4,000	-	-	-	4,000
		<u>802,522</u>	<u>873,264</u>	<u>6,004</u>	<u>-2,698</u>	<u>-</u>	<u>74,048</u>	<u>876,570</u>

[Note 1] Weifu-Autocam is joint venture founded by the Company and American Autocam in Aug. 2005. The registered capital is US\$ 6,000,000. The Company is supposed to fund US\$ 3,000,000. Ended Jun. 30, 2006, US\$ 1,400,000 had been invested to Weifu-Autocam. Among it, US\$ 700,000 is from the Company. Weifu-Autocam is still in preparing period.

[Note 2] Chaoyang Weifu-Jialin Machinery Manufacture Co. LTD was co-founded by the Company and Chaoyan Jialin Machinery Manufacture Co. LTD in May 2006, with registered capital RMB 8,000,000. The Company has funded RMB 4,000,000.

(2) Difference in long-term equity investment

	<u>Amount at period-begin</u>	<u>Increase in this period</u>	<u>Amortization in this period</u>	<u>Accumulated amortization</u>	<u>Amount at period-end</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Weifu Lida	6,281	-	1,047	5,234	5,234
Bosch Auto Diesel System	8,946	-	1,248	4,785	7,698
	<u>15,227</u>	<u>-</u>	<u>2,295</u>	<u>10,019</u>	<u>12,932</u>

(3) Other equity investment (long-term equity investment recognized under cost method)

<u>Name of investees</u>	<u>Investment proportion</u>	<u>Amount at the period-begin</u>	<u>Increase/Decrease in this period</u>	<u>Amount at the period-end</u>
	<u>%</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Wuxi Guolian Securities Co.	1.20	12,000	-	12,000
Guangxi Liufa Co., Ltd.	1.22	1,600	-	1,600
Shanghai-Nanjing Expressway Communication Bank, Wuxi Branch	0.02	594	-594	-
Changchai Group, Financing Co.	0.01	750	-750	-
Chaoyang Diesel Engine Operating Co.		800	-	800
Hejun Initiative Investment Co.	9.09	200	-	200
Nanjing Hengtai Insurance Broker Co.	11.72	33,000	-	33,000
	1.85	1,000	-	1,000

Jiangsu Huifeng Insurance Agency Co.	10.00	500	-	500
Yangdong Co., Ltd.	1.18	2,356	-	2,356
Changxin Interest Income fund		2,000	-2,000	-
Henan Gushi Weining Oil Pump & Nozzle		3,166	-	3,166
Jiangnan Hoisting and Conveying Machine Co. LTD of Changcai Group [Note 2]		1,621	-	1,621
Wuxi Keda Chuangxin Investment Co., Ltd.	1.875	3,000	-	3,000
Beijing Futian Environmental Power Holding Co., Ltd. [Note 2]	12.95	56,940	-	56,940
		<u>119,527</u>	<u>-3,344</u>	<u>116,183</u>

[Note 1] Over 4 investees including Henan Gushi Weining Oil Pump & Nozzle Co., Ltd. amounted to RMB 3,166,400, were invested by Nanjing Weifu Jinning Co. Details of those companies will not be listed herein considering their smaller production scale.

[Note 2] Over 6 investees including Jiangnan Hoisting and Conveying Machinery Co. LTD of Changcai Group amounted to RMB 1,621,000, were invested by Nanjing Weifu Jinning Co. Details of those companies will not be listed herein considering their smaller production scale.

(4) Provision for devaluation of long-term investment

	Amount at the period-begin	Increase in this period	Decrease in this period	Amount at the period-end
	RMB'000	RMB'000	RMB'000	RMB'000
Hejun Initiative Investment Co.	30,000	-	-	30,000
Henan Gushi Weining Oil Pump & Nozzle Co., Ltd. etc. [Note 1]	3,166	-	-	3,166
Beijing Futian Environmental Power Holding Co Ltd.	11,000	-	-	11,000
	<u>44,166</u>	<u>-</u>	<u>-</u>	<u>44,166</u>

[Note 1] Henan Province Gushi Weining Oil Pump & Nozzle Co. etc. are invested by Nanjing Weifu Jinning Co. In 2001, Weining Oil Pump & Nozzle Co. fully appropriated provision for devaluation amounting to RMB 2.03 million. Because of being unable to keep in touch with its investors, namely Pufa Machinery Industrial Co., Ltd., Nanjing Machinery Industry Foreign Trading Co. and Changjiang Economic Development Co. so, Sanliang Industrial Co. fully appropriated provision for devaluation in 2002. In 2006, the situation of the aforesaid companies remained unchanged, thus, the provision for devaluation is not adjusted.

7. Fixed assets and accumulated depreciation

	Amount at the	Increase in this	Decrease in this	Amount at the
	RMB'000	RMB'000	RMB'000	RMB'000
Original value of				

Buildings	410,720	890	13,373	398,237
General Equipment	127,326	4,029	2,110	129,245
Special Equipment	536,379	83,763	9,001	611,141
Transportation	12,175	839	-	13,014
Others	178,060	6,783	2,156	182,687
	<u>1,264,660</u>	<u>96,304</u>	<u>26,640</u>	<u>1,334,324</u>
Accumulated depreciation of				
Fixed assets				
Buildings	67,350	6,343	4,921	68,772
General Equipment	39,054	5,764	1,272	43,546
Special Equipment	163,926	23,274	5,749	181,451
Transportation	3,513	638	-	4,151
Other	58,972	35,238	1,559	92,651
	<u>332,815</u>	<u>71,257</u>	<u>13,501</u>	<u>390,571</u>
Devaluation of fixed assets depreciation	6,390	-	1,655	4,735
Net amount of fixed assets	<u>925,455</u>			<u>939,018</u>

[Note 1] Original value of fixed assets has increase by RMB 69,663,747; the major reason for increase in original value of fixed assets is due to construction-in-progress-transferring in amounting to RMB 17,923,033 and direct outsourcing.

[Note 2] Decrease of original fixed assets is due to selling and rejection.

[Note 3] The above fixed assets were not used for mortgage or acquired through financing lease.

[Note 4] allowance for depreciation of fixed assets decreased in 2005 due to disposal of withdrawal of allowance for depreciation of fixed assets of last year in 2005.

8. Construction-in-progress

	Amount at the period-begin	Increase in this period	Transferred to fixed assets	Other decrease	Amount at the period-end
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PW pump 2000	14,369	-	-	29	14,340
Productivity improving on high pressure track joint	162	18	-	-	180
Technology reform on nationalizing part of fuel system	2,436	371	-	-	2,807
Miscellaneous projects	51,911	60,949	17,923	1,606	93,331
	<u>68,878</u>	<u>61,338</u>	<u>17,923</u>	<u>1,635</u>	<u>110,658</u>

Provision for construction-in -progre

falling in value

-	-
<u>68,878</u>	<u>110,658</u>

[Note 1] Capital source of construction-in-progress: Productivity-improving-on-high pressure-track-joint, Technology-reform-on-nationalizing-part-of-fuel-system, and miscellaneous projects are projects of self-raised funds, capital source of PW pump 2000 is national debt technology renovation special capital or raised funds.

[Note 2] No capitalized interests occurred during this reporting period.

9. Intangible assets

	<u>Original Amount</u>	<u>Amount at the period-b</u>	<u>Increase in this period</u>	<u>Amortiz ation</u>	<u>Other transferr ing out</u>	<u>Amount at the period-end</u>	<u>Residual years for amortization</u>
	RMB'000	RMB'00	RMB'000	RMB'000	RMB'000	RMB'000	
Land use right (Wuxi Hi-tech)	4,308	3,335	-	43	-	3,292	38 years and 4 months
Land use right (Weifu Jinning)	28,752	21,325	-	479	-	20,846	21 years 9 months
Trademark use right (Weifu Jinning)	26,356	20,151	-	438	-	19,713	22 years and 5 months
Software (Weifu Jinning)	346	311	-	17	-	294	4 years
Know-how (Weifu Huanbao)	8,575	7,443	-	429	-	7,014	8 years and 2 months
Royalty (Weifu Diesel oil System)	37,109	31,543	-	1,839	-	29,704	8 years
Management software ((Weifu Diesel oil System))	4,962	4,698	-	496	-	4,202	9 years
	<u>129,908</u>	<u>88,806</u>	<u>-</u>	<u>3,741</u>	<u>-</u>	<u>85,065</u>	

[Note 1] Know-how was production technology of new generation of auto tail gas clean-up products that Weifu Environmental purchased from Huawei Nano Technology (Shanghai) Co., Ltd.

[Note 2] Royalty (Weifu Diesel Oil System): according to Agreement on Certification and Technology Assistant signed with German Bosch in year 2004, the Company may manufacture and sale some of the VE Pumps and P Pumps designed by German Bosch with its technology and technology assistants. Weifu Diesel Oil System is the actual executor of the agreement. Original capital had been paid for the royalty. Settlement will be done by the Company and Weifu Diesel Oil System according to real situations.

10. Short-term loans

	<u>Jun. 30, 2006</u>	<u>Dec. 31, 2005</u>
	RMB'000	RMB'000
Guaranteed loan (RMB) [Note 2]	190,000	315,000
Mortgage loan	-	1,517
Credit loan (RMB)	987,625	772,397
	<u>1,177,625</u>	<u>1,088,914</u>

[Note 1] No short-term loans which have fallen due but not been repaid occurred in this account.

[Note 2] The Guaranteed Loan includes: RMB 90,000,000 for Weifu Jinning by the Company; RMB 50,000,000 for Weifu Diesel Oil System by the Company and another RMB 50,000,000 for the Company and Weifu Lida by Weifu Group.

11. Notes payable

[Note] Balance of notes payable as at the end of Jun. 2006 was RMB 262,130,000, all of which are banker's acceptance. They will fall due in July to Dec., 2006.

12. Accounts payable

[Note 1] The outstanding amount of this account does not include payables to major shareholders possessing more than 5% (including 5%) of the Company's shares.

[Note 2] Accounts payable overdue 3 years amounted to RMB 1,508,992.

[Note 3] Accounts payable increased by RMB 91,696,527 over year-begin, mainly due to increase of the Company amounting to RMB 44,669,273; consolidated subsidiary Weifu Diesel Oil System, RMB 23,521,395; Weifu Lida, RMB 13,052,829 and Weifu Jinning, RMB 10,453,030.

13. Dividends payable

	<u>Jun. 30, 2006</u>	<u>Dec. 31, 2005</u>
	RMB'000	RMB'000
Legal person shareholders	416	416

14. Taxes payable

	<u>Jun. 30, 2006</u>	<u>Dec. 31, 2005</u>
	RMB'000	RMB'000
VAT	8,130	-3,164
Tax for maintaining and building	512	512
Income tax	2,859	-781
Housing property tax etc.	330	65
	<u>11,831</u>	<u>-3,368</u>

[Note] In the report period, revenue policy of VAT, tax for maintaining and building cities and income tax performed referred to Note 3 Taxable.

15. Other payables

[Note 1] Outstanding amount of payables to major shareholders possessing over 5% (including 5%) of the Company's shares occurred in this account.

<u>Item</u>	<u>Jun. 30, 2006</u>
	RMB'000

[Note 2] A large amount of other payables are listed as follows:

	<u>Nature and content</u>	<u>Jun. 30, 2006</u>
		RMB'000
Temporary estimated project fund		22,229
Enterprise employee—Endowment Insurance	Insurance payable	12,468
Land purchase in Nanjing New& High Technology Industry Development Zone		7,563
Enterprise employee —Housing subsidy	Employee's housing subsidy	5,900
Enterprise employee—inner insurance	Deal with employee's	5,681
Nanjing Steamship Engine Group Co., Ltd.	Loan	4,000

Temporary estimated project fund: Account payable for workshop of Weifu Jinning in High-tech District, Nanjing, which has been put into use with fees unsettled.

Endowment insurance: employee endowment general funds should be paid but no paid.

Land purchase: The account payable amounting to RMB 19,500,000 to Nanjing New&High-tech Development Corp. is for land use right of 200,000 square meters in High-tech District, Nanjing Weifu Jinning got in Dec. 2002. According to the agreement, RMB 3,000,000 would be paid in year 2005; RMB 5,000,000, in year 2006. Balance of period-end is account that had not been paid in year 2005 and account payable in 2006.

Housing subsidy: Weifu Jinning appropriated employee's housing subsidy according to the resolution of the Board of Directors.

Inner Insurance: according to implement plan on subsidy endowment and employee deposit endowment of the Company, since employee enter the Company, they render for this as per 2% of average monthly pay of pervious year individually, enterprise compensate for it as per 1%, employee take them one time when retirement.

Nanjing Steamship Engine Group Co., Ltd.: Weifu Jinning borrowed RMB 8,000,000 from Nanjing Steamship Engine Group Co., Ltd. in Aug. 1997, the both parties promised to amortize. At present, Weifu Jinning has repaid RMB 4,000,000.

16. Long-term loans

	<u>Jun. 30, 2006</u>	<u>Dec. 31, 2005</u>
	RMB'000	RMB'000
Guarantee loan (RMB)	73, 000	73, 000

[Note 1] Balance of long-term loan at period-end amounted to RMB 93,000,000, including repay at experiment in 2006 amounting to RMB 20,000,000, has transferred into long-term debts within one year.

[Note 2] Weifu Group provides guarantee loan for the Company amounting to RMB 90,000,000; Weifu Lida has got a loan amounting to RMB 3,000,000 by deposit receipts valuing at RMB 3,400,000.

17. Long-term accounts payable

<u>Items</u>	<u>Jun. 30, 2006</u>
--------------	----------------------

		RMB'000
Nanjing New&Hi-tech Development Corp. [Note 1]	land use right in Hi-tech Zone	7,000
Nanjing Finance Bureau [Note 2]	Financial supporting fund (2001)	1,880
Nanjing Finance Bureau [Note 3]	Financial supporting fund (2004)	1,710
Nanjing Finance Bureau [Note 4]	Financial supporting fund (2005)	1,140
Nanjing Finance Bureau [Note 5]	Financial supporting fund (2003)	140
		11,870

[Note 1] Long-term accounts payable of Nanjing Hi-tech Development Corp. is that Weifu Jinning acquired the land use right of 200,000 sq. m. located in Nanjing Hi-tech Technology Industrial Development Zone with total amount of RMB 19,500,000. In accordance with the relevant agreement, Weifu Jinning repaid RMB 4,500,000 before 2004, repaid RMB 3,000,000 in 2005, and will repay RMB 12,000,000 from year 2006 to 2007.

[Note 2] To encourage Weifu Jinning to enter Nanjing New& High Technology Industry Development Zone, financial supporting capital is allotted by New & High branch of Finance Bureau of Nanjing for supporting use, the term is from Dec.20,2001 to Aug.18,2007,Provided that the operation period in the zone is less than 10 years, financial supporting capital will be reimbursed.

[Note 3] To encourage Weifu Jinning to enter Nanjing New& High Technology Industry Development Zone, financial supporting capital is allotted by New & High branch of Finance Bureau of Nanjing for supporting use, the term is from Aug.15,2004 to Aug.4,2012,Provided that the operation period in the zone is less than 10 years, financial supporting capital will be reimbursed.

[Note 4] To encourage Weifu Jinning to enter Nanjing New& High Technology Industry Development Zone, financial supporting capital is allotted by New & High branch of Finance Bureau of Nanjing for supporting use, the term is from Oct. 20, 2005 to Oct. 20, 2020, Provided that the operation period in the zone is less than 10 years, financial supporting capital will be reimbursed.

[Note 5] To encourage Weifu Jinning to enter Nanjing New& High Technology Industry Development Zone, financial supporting capital is allotted by New & High branch of Finance Bureau of Nanjing for supporting use, the term is from Dec. 24, 2003 to Dec. 24, 2007, Provided that the operation period in the zone is less than 10 years, financial supporting capital will be reimbursed.

18. Special accounts payable

Items	Dec.31, 2005	Increase in the period	Offsetting expenses	Jun.30,2006
	RMB'000	RMB'000	RMB'000	RMB'000
T-Bonds discount capital	1,491	-	1,491	-

Allotment from technology renovation of finance	11,553	220	970	10,803
Total	13,044	220	2,461	10,803

[Note 1] T-bonds discount capital in 2006 decreased due to paying relevant interest rising from long-term loans.

[Note 2] Increase of allotment from technology renovation of finance in 2006 is the received financing allotment; decrease is payment for related costs.

19. Share capital

	Dec.31, 2005	Increase or decrease in the period	Jun.30, 2006
	RMB'000	RMB '000	RMB'000
Non-circulating share capital			
- Share capital of the sponsor	158,036	-43,974	114,062
- Raised legal person's shares	13,520	-3,762	9,758
	171,556	-47,736	123,820
Circulating share capital			
-Domestically listed foreign shares (B-share)	114,920	-	114,920
-Domestically listed ordinary shares (A-share)	280,800	47,736	328,536
	395,720	47,736	443,456
Total	567,276	-	567,276

[Note] On Mar. 21, 2006, the Company's plan on Share-trading Reform was approved by State-owned Assets Supervision and Administration Commission of Jiangsu Province (Su Guo Zi Fu [2006] No. 61). On Mar. 27, 2006, with approving of related A shareholders' meetings of the Company, the plan has been officially carried out on Apr. 5, 2006. The short form of the stock has been changed from Weifu High-tech to G Weifu.

20. Capital Reserves

	Dec.31, 2005	Increase or decrease in the period	Jun.30, 2006
	RMB'000	RMB'000	RMB'000
Capital premium [Note 1]	908,919	-	908,919
Other capital reserve [Note 2]	146	-	146
Equity investments reserve	16,185	-	16,185
	925,250	-	925,250

[Note 1] Capital premium refers to the part of exceeding share capital when the Company issues B-shares and A-shares;

[Note 2] Other capital reserve refers to the donation that the Company accepts

non-cash assets. The assets have been coped with.

[Note 3] Equity investment reserve belongs to public reserve confirmed from subsidiary based on investment proportion and from affiliated company based on equity method.

21. Surplus Public Reserve

	Dec.31, 2005	Withdrawn in the period	Jun.30, 2006
	RMB'000	RMB'000	RMB'000
Statutory surplus public reserve	175,893	-	175,893
Statutory public welfare reserve	88,023	-	88,023
Arbitrary surplus public reserve	1,784	-	1,784
Reserve fund	1,166		1,166
Enterprise development fund	583		583
	267,449	-	267,449

22. Undistributed profit

	Jun.30, 2006	Dec .31, 2005
	RMB'000	RMB'000
Undistributed profit in the period beginning	582,007	619,996
Add: Net profit in the period	79,690	181,905
Profit available for distribution	661,697	801,901
Less: Statutory surplus public reserve withdrawn	-	28,655
Statutory public welfare reserve withdrawn	-	14,328
Employee's bonus and welfare fund withdrawn	-	615
Reserve fund withdrawn	-	1,166
Enterprises' development fund withdrawn	-	583
Dividends of ordinary shares	-	43,637
Ordinary dividends converted into share capital	-	130,910
Undistributed profit in the period end	661,697	582,007

[Note] On Apr. 18, 2006, the 5th meeting of the 5th Board of the Company examined and approved Profit Distribution Preplan 2005. The Company withdraws statutory surplus public reserve and statutory public welfare reserve respectively according to 10% and 5% of the net profit of the year. In addition, Weifu Lida withdraws 10% reserve fund, 5% employees' welfare fund and 5% enterprises' development fund according to the accumulative distributable profits. The distributable profits are taken by total shares amounted to 567,275,995 as the base number in the end of 2005 after

withdrawing the funds. And dispatch cash bonus RMB 4.00 (including tax) per 10 shares to whole shareholders⁴, and has approved by the 2005 Shareholders' General Meeting held on June 20, 2006.

23. Income from core business and cost from core business

The income from core business in the first half of 2006 decreased by 26.57% compared with the same period of 2005, which mainly due to the decrease of Weifu diesel oil system.

The total income of the top 5 customers of the income from core business is RMB 588,062,817, accounting for 45.61% of the total income from core business.

The cost from core business in the first half of 2006 decreased compared with the same period of 2005, which mainly due to the decrease of income from core business.

24. Tax of core business and associate charges

	<u>Jan.-Jun., 2006</u>	<u>Jan.-Jun., 2005</u>
	RMB'000	RMB'000
City maintenance and construction	4,984	2,824
Education associate charge	2,837	1,600
Business tax	11	94
	<u>7,832</u>	<u>4,518</u>

[Note] See the city maintenance and construction tax, education associate charge and taxes policies implemented in the report period, Please refer to the Note 3 Tax.

25. Profit from other business

	<u>Jan.-Jun., 2006</u>	<u>Jan.-Jun., 2005</u>
	RMB'000	RMB'000
Profit from material sales	-1,411	6,762
Profit from lease of house and equipment	476	751
Profit of labor force	3,264	1,377
Other profit	2,194	13
	<u>4,523</u>	<u>8,903</u>

26. Financial expenses

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Loan interest expenses	35,736	18,567
Draft discount interest	2,925	3,759
Cash discount of sales	1,999	2,792
Commission expenses	212	206
Exchange losses	1,981	10,356
Bank deposit interest income [Note 1]	-6,424	-3,973
	<u>36,429</u>	<u>31,707</u>

[Note 1] Interest income of bank deposit includes interest income of time deposit.

27. Investment income

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Income of unconsolidated subsidiaries and affiliated companies [Note 1]	-2,698	25,710
Other long-term equity investment income	1,591	706
Amortize balance of long-term equity investment [Note 2]	-2,295	-2,295
	<u>-3,402</u>	<u>24,121</u>

[Note 1] Income of unconsolidated subsidiaries and affiliated companies

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Weifu Mashan	324	102
Weifu Jida	-160	-179
Weifu Chang'an	443	2,999
Zhonglian Auto Electronic Co., Ltd.	28,000	22,000
Weifu Precision Manufacturing	201	705
Bosch Auto Diesel System	-31,547	-
Weifu International Trade	41	83
	<u>-2,698</u>	<u>25,710</u>

[Note 2] List on amortization balance of long-term equity investment:

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Weifu Lida	-1,047	-1,047
Bosch Auto Diesel System	-1,248	-1,248
	<u>-2,295</u>	<u>-2,295</u>

28. Non-operating expenses

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Adjustment fund of the market price	3,649	5,141
Loss of disposing fixed assets [Note]	423	241
Provision for the devaluation of fixed assets	-	-558
Expenses of donation	610	-
Others	594	726
	<u>5,276</u>	<u>5,550</u>

[Note] The loss of disposing fixed assets in the first half of 2006 mainly refers to the losses caused on selling and disposing the old equipments by the Company.

29. Cash received from other activities related to operating activities

	Jan.-Jun., 2006
	RMB'000
Technological upgrading of finance project and supporting fund received	920
Interest income from bank deposit	6,424
Income of lease of fixed assets	536
Other	3,299
	<u>11,179</u>

30. Cash paid for other activities related to operating activities

	Jan.-Jun., 2006
	RMB'000
Cash amount in administrative expenses	21,963
Cash amount in operating expenses	21,661
Others	11,313
	<u>54,937</u>

Note 6. Notes to the main items in the financial statements of the parent company

1. Accounts receivable

June 30, 2006					
	Amount	Proportion	Provision for bad debts	Proportion of provision	Net amount
	RMB'000	%	RMB'000	%	RMB'000
Within 1 year	338,849	82.47	16,943	5.00	321,906
Between 1-2 years	46,933	11.42	4,693	10.00	42,240
Between 2-3 years	236	0.06	71	30.00	165
Between 3-4 years	427	0.10	213	50.00	214
Between 4-5 years	139	0.03	111	80.00	28
Over 5 years	1,272	0.31	1,272	100.00	-
Recognized by single	23,044	5.61	23,044	100.00	-
	<u>410,900</u>	<u>100.00</u>	<u>46,347</u>	<u>11.28</u>	<u>364,553</u>

Dec. 31, 2005

	Amount	Proportion	Provision for bad debts	Proportion of provision	Net amount
	RMB'000	%	RMB'000	%	RMB'000
Within 1 year	292,734	91.35	14,663	5.00	278,071
Between 1-2 years	682	0.21	68	10.00	614
Between 2-3 years	663	0.21	199	30.00	464
Between 3-4 years	149	0.05	74	50.00	75
Between 4-5 years	126	0.04	100	80.00	26
Over 5 years	1,156	0.36	1,156	100.00	-
Recognized by single	24,945	7.78	24,945	100.00	-
	320,455	100.00	41,205	12.86	279,250

2. Other accounts receivable

[Note] The balance of other accounts receivable of the Company in the end of June in

	Jun.30, 2006	Dec.31, 2005
	RMB'000	RMB'000
Within 1 year	29,628	61,916
Between 1-2 years	2,440	-
Between 2-3 years	6,662	26,662
Recognized by single	4,400	4,400
	43,130	92,978
Less: bad debts reserve	4,400	4,400
	38,730	88,578

2006 mainly composes of payments receivable or advance money of the subsidies and related parties, till money borrowed by employees, investment incurred for other shareholders of Weifu Narometer etc. The investment withdrawn 100% bad debts reserve incurred for other shareholders of Weifu Narometer by the Company amounting to RMB 4,400,000.

3. Long-term equity investment

	Jun. 30, 2006
	RMB'000
Consolidated subsidiaries [Note 1]	821,864
Unconsolidated subsidiaries and affiliated companies [Note 2]	849,160
Balance of long-term equity investment [Note 3]	12,932
Other long-term equity investment [Note 4]	51,456
Impairment loss for long-term investment [Note 5]	-30,000
	<u>1,705,412</u>

[Note 1] Consolidated subsidiaries

Name of the investee	Investment proportion	Amount at the period-begin	Increase /decrease in investment in the period	Increase /decrease in equity in the period	Increase /decrease in equity total	Amount at the period-end
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Weifu Jinning	80.00%	290,180	-	16,294	127,834	306,474
Weifu Lida	94.81%	228,406	-	8,058	14,388	236,464
Weifu Nanometer	80.00%	23,514	-	83	-403	23,597
Weifu Diesel Oil System	70.00%	219,491	-	35,838	115,329	255,329
		<u>761,591</u>	<u>-</u>	<u>60,273</u>	<u>257,148</u>	<u>821,864</u>

[Note 2] Unconsolidated subsidiaries and affiliated companies

Name of the investee	Investment proportion	Original investment capital	Amount at the period-begin	Increase /decrease in investment in the period	Increase /decrease in equity in the period	Paid dividends	Increase /decrease in equity total	Amount at the period-end
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Weifu Mashan	92.60%	44,368	44,287	-	324	-	243	44,611
Weifu Changan	85.00%	77,330	73,873	-	443	-	-3,014	74,316
Weifu Jida	70.00%	3,500	1,611	-	-160	-	-2,049	1,451
Weifu Autocam	50.00%	5,643	3,639	2,004	-	-	-	5,643
Zhaoyang Weifu Jialin	50.00%	4,000	-	4,000	-	-	-	4,000
Bosch Automobile Diesel Oil System Co., Ltd.	30.00%	517,245	501,615	-	-31,547	-	-47,177	470,068
honglian Automobile Electronic Company Limited	20.00%	120,124	215,702	-	28,000	-	123,578	243,702
Wuxi Weifu Precise Machinery Manufacturing Co., Ltd.	20.00%	2,000	4,112	-	201	-	2,313	4,313
Wuxi Weifu International Trade Co., Ltd.	15.00%	750	1,015	-	41	-	306	1,056
		<u>774,960</u>	<u>845,854</u>	<u>6,004</u>	<u>-2,698</u>	<u>-</u>	<u>74,200</u>	<u>849,160</u>

[Note 3] Balance of long-term equity investment

	Amount in the period beginning	Increase in the period	Amortization in the period	Switching into capital reserve	Accumulativ e amortization in the period	Amount in the period end
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Weifu Lida	6,281	-	1,047	-	5,234	5,234
Bosch Automobile Diesel Oil system Co., Ltd.	8,946	-	1,248	-	4,785	7,698
	15,227	-	2,295	-	10,019	12,932

[Note 4] Other long-term equity investment (long-term equity investment accounted by cost method)

Name of investee	Investment proportion	Amount in the period beginning	Increase/decrease in the period	Amount in the period end
	%	RMB'000	RMB'000	RMB'000
Gulian Securities Co., Ltd.	1.20	12,000	-	12,000
Guangxi Liufa Co., Ltd.	1.22	1,600	-	1,600
Jiangsu Ninghu Express Way Co., Ltd.	0.02	594	-594	-
Wuxi Branch of Communication Bank Finance Company of Changchai Group	0.01	750	-750	-
Zhaoyang Diesel Operating Co., Ltd.	9.09	200	-	200
Hejun Venture Capital Co., Ltd.	11.72	33,000	-	33,000
Nanjing Hengtai Insurance Brokers Co., Ltd.	1.85	1,000	-	1,000
Jiangsu Huifeng Insurance Agency Co., Ltd.	10.00	500	-	500
Yangdong Co., Ltd.	1.18	2,356	-	2,356
Changxin Interest Income Fund		2,000	-2,000	-
		54,800	-3,344	51,456

[Note 5] Impairment loss for long-term investment\

	Amount in the period beginning	Increase in the period	Decrease in the period	Amount in the period end
	RMB'000	RMB'000	RMB'000	RMB'000
Hejun Venture Capital Co., Ltd.	30,000	-	-	30,000

4. Investment income

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Consolidated subsidiaries	60,274	68,356
Unconsolidated subsidiaries and affiliated companies	-2,698	25,710
Other long-term equity investment income	1,591	556
Balance of long-term equity investment	-2,295	-2,295
	56,872	92,327

Note 7. The relationship of the related parties and transactions (Unit: RMB' 000)

1. The related parties existing controlling relationship

Name of enterprise	Registered address	Core business	Relationship with the Company	Economic type	Legal representative
Weifu Group	Wuxi city	Machine processing	Parent Company	Wholly owned by the state	Xu Liangfei
Weifu Mashan	Mashan, Wuxi	i.c.engine components	Subsidiary	Company Limited	Xu Liangfei
Weifu Jida	Development District, Wuxi	Metal Nano-material	Subsidiary	Company Limited	Xu Liangfei
Weifu Changan	Changan, Xishan	i.c.engine components	Subsidiary	Company Limited	Xu Liangfei
Weifu Lida	New District, Wuxi	Silencer, Catalytic converter	Subsidiary	Company Limited	Xu Liangfei
Weifu Narometer	Huishan District, Wuxi	Nanometer Materials	Subsidiary	Company Limited	Xu Liangfei
Weifu Jingning	Nanjing Development District	Oil pump and oil mouth	Subsidiary	Company Limited	Xu Liangfei
Weifu Diesel Oil System	New District, Wuxi	i.c.engine components	Subsidiary	Company Limited	Xu Liangfei

2. Registered capital of the related parties existing controlling relationship and the

changes

Name of enterprise	Amount in the period beginning	Increase in the period	Decrease in the period	Amount in the period end
	RMB'000	RMB'000	RMB'000	RMB'000
Weifu Group	134,830	-	-	134,830
Weifu Mashan	45,000	-	-	45,000
Weifu Jida	5,000	-	-	5,000
Weifu Changan	60,000	-	-	60,000
Weifu Lida	260,000	-	-	260,000
Weifu Narometer	30,000	-	-	30,000
Weifu Jingning	256,000	-	-	256,000
Weifu Diesel Oil System	200,000	-	-	200,000

3. Share capital of the related parties existing controlling relationship and the changes

Name of enterprises	Amount in the period beginning		Increase in the period	Decrease in the period	Amount in the period end	
	Amount	%			Amount	Amount
	RMB'000		RMB'000	RMB'000	RMB'000	
Weifu Group	158,036	27.86	-	43,974	114,062	20.11
Weifu Mashan	41,670	92.60	-	-	41,670	92.60
Weifu Jida	3,500	70.00	-	-	3,500	70.00
Weifu Changan	56,778	94.63	-	-	56,778	94.63
Weifu Lida	246,500	94.81	-	-	246,500	94.81
Weifu Narometer	24,000	80.00	-	-	24,000	80.00
Weifu Jingning	204,800	80.00	-	-	204,800	80.00
Weifu Diesel Oil System	140,000	70.00	-	-	140,000	70.00

4. The related parties existing joint controlling relationship

Name of enterprise	Registered address	Core business	Relationship with the Company	Economic type	Legal representative
Weifu Environmental	New district of Wuxi	Catalyst	Affiliated company of Weifu Lida	Sino-foreign joint venture enterprise	Xu Liangfei
Weifu Autocam	New district of Wuxi	Spare parts of automobiles	Joint venture enterprise	Sino-foreign joint venture enterprise	Gao Guoyuan
Zhaoyang Jialin	WeifuZhaoyang development district	Accessories of internal-combustion engine	Joint venture enterprise	Limited company	Li Xiaofeng

5. Registered capital of the related parties existing controlling relationship and the changes

Name of enterprise	Amount in the period beginning		Increase in the period	Decrease in the period	Amount in the period end	
	RMB'000		RMB'000	RMB'000	RMB'000	
	Weifu Environmental	50,00		-		50,00
Weifu Autocam	USD6,00				USD6,00	
Zhaoyang Weifu Jialin	8,00		8,00		8,00	

6. Share capital of the related parties existing joint controlling relationship and the changes

Name of enterprises	Amount in the period beginning		Increase in the period	Decrease in the period	Amount in the period end	
	Amount	%	Amount	Amount	Amount	%
	RMB'000		RMB'000	RMB'000	RMB'000	
Weifu Environmental	24,500	49	-	-	24,500	49.00
Weifu Autocam	USD450	50	USD250	-	USD700	50.00
Zhaoyang Weifu Jialin	-	-	4,000	-	4,000	50.00

7. Type of the related parties without existing joint controlling relationship

Name of enterprises	Relationship with the Company
Bosch Auto Diesel System	Affiliated company
Weifu Precise Machinery	Affiliated company
Wuxi Weifu International Trade Co., Ltd.	The same parent company

8. The transactions between the Company and the related parties

(1) Purchase of commodities or labor force

Name of enterprises	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Weifu Group	4,022	7,603
Weifu Mashan	56,502	44,489
Weifu Changan	69,558	67,201
Weifu Precise Machinery	47,458	58,249
Bosch Auto Diesel System	20,400	104,773
Wuxi Weifu International Trade Co., Ltd.	76	169

(2) Sale of commodities

Name of enterprises	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Weifu Group	96,520	106,014
Weifu Mashan	2,774	7,141
Weifu Changan	4,420	4,904
Weifu Precise Machinery	8,052	11,134
Bosch Auto Diesel System	38,877	2,347
Wuxi Weifu International Trade Co., Ltd.	2,435	-

(3) Commission fees

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Commission fees for the import of Wuxi Weifu International Trade Co., Ltd.	212	-

(4) Purchase of fixed assets

Name of enterprises	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Weifu Precise Machinery	168	-

(5) Sales of fixed assets

Name of enterprises	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Weifu Changan	6	-
Weifu Mashan	559	-

(6) External guarantee

Name of enterprises	Jun. 30, 2006	Dec. 31, 2005
	RMB'000	RMB'000
Balance of guarantee for bank loans of Weifu Chang'an	47,000	47,000
Balance of guarantee for bank acceptance of Weifu Chang'an	3,000	3,000

(7) Other transaction of the Company and Weifu Group

The following agreements with Weifu Group:

(a) The agreement of using trademark

The Company sells products using the trademark of Weifu Group, and pays 0.3% of

the total sales amount for using trademark. The amount every year would be no less than RMB 1,200,000. The agreement takes effect from May 1, 1995 with the duration of 10 years. Due to that the duration was expired, the two parties concerned signed the following supplementary agreement on April 19, 2005: the original contract will be prolonged for ten years till April 30, 2015 and other articles of original contract will continuously take effect.

(b) The leasing agreement of land using right

The Company paid the first rent fees amounting to RMB 327,285 to Weifu Group in order to obtain use right for land, with an increase of 10% year by year. The agreement takes effect from March 1, 1995 with the duration of 50 years. Due to that the rent land area changed, the two parties concerned signed the following supplementary agreement on April 19, 2005: The Company agreed to pay annual rent price amounting to RMB 1,200,000 to Weifu Group in order to obtain use right for land occupied for plants. The execution for the said price dated from Jan 1, 2005 to Dec. 31, 2014.

The significant transactions of the company and Weifu Group are as follows:

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Expenses for using land and trademark	2,485	2,789
Amount of guarantee for loans of the Company and subsidiaries	177,000	495,000

The prices of related transactions between the Company and the related parties would be transacted according to the ordinary commercial price.

(8) Transaction between the Company and consolidated subsidiaries and joint venture enterprises Weifu Environmental (The unconsolidated part according to rule of scale)

	Jan.-Jun., 2006	Jan.-Jun., 2005
	RMB'000	RMB'000
Purchase of goods	37,698	22,630
Sales of goods	85	101
Sales of water and electricity	324	230

9. The Balance of accounts receivable and payable of the related parties

	Jun.30, 2006	Dec.31, 2005
	RMB'000	RMB'000
Accounts receivable:		
Bosch Auto Diesel System	1,033	176
Other accounts receivable:		
Weifu Mashan	14,011	-
Weifu Changan	1,080	6,369
Bosch Auto Diesel System	18,886	-
Weifu Precise Machinery	2,426	10,241
Zhaoyang Weifu Jialin	10	-
Other accounts payable:		
Weifu group	1,632	13,879
Weifu Mashan	-	12,542
Bosch Auto Diesel System	-	2,991
Weifu Jida	399	399
Weifu International Trade	-	128
Weifu Precise Machinery	184	-
Accounts payable:		
Weifu Environmental	13,479	12,470

Note 8. Impact of IAS adjustments on net profit and net assets

	Net profits		Net assets	
	Jan. -Jun., 2006	Jan.-Jun., 2005	Jun.30, 2006	Dec.31, 2005
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts accounted according to Chinese Accounting System	79,690	152,447	2,421,672	2,341,983
Adjustment according to International Accounting Standards				

Investment income confirmed by using equity method	-	-	9,013	9,013
Investment adjusted due to affiliated company cutting down land lease cost with government subsidy	-	-	-10,618	-10,618
Good will amortization rising from switch back of purchasing affiliated company according to International Accounting Standards 3	2,295	1,248	8,209	5,914
Losses rising from disposal of real property, plant building and equipment in order to exchange shares of affiliated company	-	-	-5,966	-5,966
Amortized and confirmed income tax credited by homemade equipment as deferred income	323	-5,508	-4,854	-5,177
Government subsidy of unconfirmed income	-1,091	-7,680	-18,967	-17,876
Withdrawal of deferred income tax	-	-	11,272	11,272
Confirmed negative goodwill produced by establishing affiliated company as income in that year	-	-	-	-
Purchase of inventory of unconsolidated subsidiaries and the unrealized gross profit	-	-	-6,461	-6,461
Employees' bonus and welfare fund	-	-	-	-
The above adjustments' influences on minority shareholders' interest	-	-	-2,121	-2,121
Amount compiled by International Accounting Standards	81,217	140,507	2,401,179	2,319,963

Note 9. Contingencies

Ended Jun.30, 2006, the Company had no significant contingent debts and losses:

1. Guarantee for the bank loans of share controlling subsidiary Weifu Chang'an amounted to RMB 47,000,000.
2. Guarantee for the bank acceptance of share controlling subsidiary Weifu Chang'an amounted to RMB 3,000,000.

Note 10. Commitments

Ended June 30, 2006, the Company and its subsidiaries had the following material commitments:

The Company and its subsidiaries need pay RMB 76,523,900 for build factory buildings and purchase equipments (which has signed contract).

Note 11. Subsequent Non-adjustment Event on the Balance Sheet Date

Except the followings, there existed no other significant after date non-adjusted events in balance sheet:

1. On Aug. 7, 2006 profit distribution 2005 was accomplished.
2. Ended Aug. 18, 2006, RMB 99 million in notes payable has been paid.

Note 12. Other Significant Event

Non-recurring gains and losses

	Jan.-Jun., 2006
	RMB'000
Expenses of non-operating activities	5,276
Less: fund for food adjustment, fund for anti-flood safety	3,649
Less: Provision for the devaluation of fixed assets	-
Subtotal of expenses of non-operating activities	<u>1,627</u>
Income of non-operating activities	450
Fees charged off by financial appropriation	-
Switch back of allowance for bad debts	234
Switch back of allowance for falling price of inventory	149
Switch back of allowance for the provision of devaluation of fixed assets	1,655
Total of non-recurring gains	<u>2,488</u>
Less: amount influenced by income tax of non-recurring gains and losses	861
Less: amount influenced by non-recurring gains and losses on minority shareholders interest	<u>72</u>
Net amount of non-recurring gains and losses	386
Less: amount influenced by income tax of non-recurring gains and losses	<u>403</u>

Section VIII. Document for Reference

- I. The text of Interim Report bearing the signature of the Chairman of the Board;
- II. The Accounting Statement bearing signature and seal of legal representative, financial charger and accounting organ officer;
- III. All text documents disclosed in China Securities, Securities Times, Ta Kung Pao and Wen Wei Po;
- IV. The text of Articles of Association of the Company.

Chairman of the Board
Board of Directors
Of Wuxi Weifu Hi-technology Co., Ltd.
August 18, 2006